



OAK SHORES COMMUNITY ASSOCIATION

**Audit Report
Financial Statements
and
Supplemental Information
*December 31, 2015***

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Board of Directors and Members

Oak Shores Community Association
Bradley, CA

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of Oak Shores Community Association, a non-profit corporation, which comprise the balance sheet as of December 31, 2015, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oak Shores Community Association as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information regarding replacement fund balances on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Revenues and Expenses – Budget and Actual on page 11 and the Summarized Schedule of Operating Fund Activity on page 12 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. It has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we express no opinion on it.

Hinricher, Douglas & Porter

April 28, 2016
Thousand Oaks, California

Oak Shores Community Association

Balance Sheet

As of December 31, 2015

	Operating Fund	Replacement Fund	Total Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 679,315	\$ 584,572	\$ 1,263,887
Investments	-	1,541,205	1,541,205
Assessments Receivable, Net of Allowance for Bad Debts of \$21,096	19,077	-	19,077
Other Receivables	870	-	870
Accrued Interest Receivable	-	2,736	2,736
Prepaid Insurance	39,574	-	39,574
Other Prepaid Expenses	18,013	-	18,013
Inventory	4,352	-	4,352
Property and Equipment, Net of Accumulated Depreciation of \$332,851	94,145	-	94,145
Total Assets	\$ 855,346	\$ 2,128,513	\$ 2,983,859
 <u>LIABILITIES</u>			
Accounts Payable	\$ 12,561	\$ -	\$ 12,561
Accrued Payroll and Related Items	35,899	-	35,899
Income Taxes Payable	3,946	-	3,946
Prepaid Assessments	421,295	-	421,295
Other Liabilities	22,910	1,500	24,410
Total Liabilities	496,611	1,500	498,111
 <u>FUND BALANCES</u>			
Capital Contributions-Gate Enhancement Committee	11,041	-	11,041
Private Marina	32,875	-	32,875
Operating Fund Balance	10,804	-	10,804
Reserve Fund Balance	304,015	-	304,015
Total Fund Balance	-	2,127,013	2,127,013
Total Liabilities and Fund Balances	\$ 855,346	\$ 2,128,513	\$ 2,983,859

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2015

	Operating Fund	Replacement Fund	Total Funds
<u>REVENUES</u>			
Assessments	\$ 975,362	\$ 447,060	\$ 1,422,422
Interest Income	84	2,361	2,445
Rubbish Fee Income	188,104	-	188,104
Owner Rental Fees	23,075	-	23,075
Watercraft Fees	23,450	-	23,450
Owner Fee Income	7,841	-	7,841
Committee Revenues	26,002	-	26,002
Lease Fees from Private Marina	54,647	-	54,647
Grant Revenues	36,539	-	36,539
Gain on Sale of Foreclosed Property	19,230	-	19,230
Other Income	40,902	4,800	45,702
Total Revenues	<u>1,395,236</u>	<u>454,221</u>	<u>1,849,457</u>
<u>EXPENSES</u>			
<u>General and Administrative Expenses</u>			
Insurance	69,335	-	69,335
Legal Fees	72,367	-	72,367
Outside Services	37,870	-	37,870
Audit and Accounting	7,200	-	7,200
Income Taxes	6,746	-	6,746
Printing and Reproduction	11,794	-	11,794
Other General and Administrative	40,935	-	40,935
<u>Payroll and Related Costs</u>			
Salaries	461,868	-	461,868
Payroll Taxes	42,157	-	42,157
Insurance and Other Costs	80,381	-	80,381
<u>Utilities</u>			
Rubbish Service	190,753	-	190,753
Water and Fire Hydrants	88,821	-	88,821
Electricity and Propane	23,896	-	23,896
Telephone and Other	14,228	-	14,228
Depreciation	22,068	-	22,068
Committee Expenses	25,438	-	25,438
Private Marina Expenses	105,022	-	105,022
Transportation Costs	26,689	-	26,689
Maintenance and Repairs	61,880	-	61,880
<u>Capital Expenditures</u>			
Gate Enhancement	15,324	-	15,324
Other Capital Improvements	132	-	132
Major Repairs and Replacements	-	43,941	43,941
Total Expenses	<u>1,404,904</u>	<u>43,941</u>	<u>1,448,845</u>
Excess (Deficiency) of Revenues Over Expenses	<u>(9,668)</u>	<u>410,280</u>	<u>400,612</u>
Fund Balances, Beginning of Year	<u>218,287</u>	<u>1,716,733</u>	<u>1,935,020</u>
Prior Period Adjustment	<u>139,075</u>	<u>-</u>	<u>139,075</u>
Fund Balance, Beginning of Year Restated	<u>357,362</u>	<u>1,716,733</u>	<u>2,074,095</u>
Contributed Capital	<u>11,041</u>	<u>-</u>	<u>11,041</u>
Fund Balances, End of Year	<u>\$ 358,735</u>	<u>\$ 2,127,013</u>	<u>\$ 2,485,748</u>

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association

Statement of Cash Flows

For the Year Ended December 31, 2015

	Operating Fund	Replacement Fund	Total Funds
<u>Cash Flows From Operating Activities:</u>			
Excess (Deficiency) of Revenues Over Expenses	\$ (9,668)	\$ 410,280	\$ 400,612
<u>Adjustments to Reconcile Net Income to Net Cash and Cash Equivalents Provided by Operating Activities:</u>			
Gain on Sale of Foreclosed Property	(19,230)	-	(19,230)
Depreciation	22,068	-	22,068
<u>Change in Assets and Liabilities:</u>			
Decrease in Assessments Receivable	12,712	-	12,712
Decrease in Other Receivables	3,583	-	3,583
(Increase) in Accrued Interest Receivables	-	(2,736)	(2,736)
(Increase) in Inventory	(1,588)	-	(1,588)
(Decrease) Increase in Accounts Payable	2,936	(1,429)	1,507
(Decrease) in Accrued Payroll	(2,332)	-	(2,332)
(Decrease) in Income Taxes Payable	(497)	-	(497)
Increase in Prepaid Assessments	27,981	-	27,981
Increase in Other Liabilities	7,924	-	7,924
Total Adjustments	53,557	(4,165)	49,392
Cash and Cash Equivalents Provided By Operations	43,889	406,115	450,004
<u>Cash Flows from Investing Activities:</u>			
Proceeds from Sale of Foreclosed Lots	20,629	-	20,629
Increase in Investments	-	(1,287,562)	(1,287,562)
Cash and Cash Equivalents Provided (Used) By Investing Activities	20,629	(1,287,562)	(1,266,933)
<u>Cash Flows from Financing Activities:</u>			
Capital Contributions	11,041	-	11,041
Cash Provided (Used) By Financing Activities	11,041	-	11,041
Net Increase (Decrease) In Cash and Cash Equivalents	75,559	(881,447)	(805,888)
Cash and Cash Equivalents, Beginning of Year, Restated	603,756	1,466,019	2,069,775
Cash and Cash Equivalents, End of Year	\$ 679,315	\$ 584,572	\$ 1,263,887
<u>Supplemental Information:</u>			
Cash Paid for Income Taxes	\$ 7,867	\$ -	\$ 7,867

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

The Oak Shores Community Association (the Association) was incorporated in May 1970. The Association is a common interest realty association and is responsible for the maintenance and operation of the common areas of an 851 lot planned development located on Lake Nacimiento in an unincorporated area of San Luis Obispo County near the town of Bradley, California. Assessments are levied annually against each lot in the development.

The Association's Board of Directors is comprised of seven members elected by the membership. The Board of Directors, among other things, establishes assessments on members of the Association and establishes user fees for Association amenities.

Accounting Method

The Association maintains its books of account on the accrual basis of accounting for external financial reporting purposes. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Fund Accounting

The Association has segregated its activities into two funds; the operating fund, and the replacement fund. The operating fund accounts for all current operating transactions of the Association, including those of the committees and groups. The replacement fund accounts for member capital contributions which are accumulated in separate bank accounts to provide for the future repair and replacement of the Association's common areas.

Committees

The combined financial statements include the accounts of the Association and the accounts of controlled committees and groups that operate within the community. The controlled committees and groups that operate within the community are:

Recreation Committee – The Recreation Committee is an organized group of volunteers who sponsor a number of community events each year including the Fireman's Ball, the July 4th pancake breakfast, the Labor Day Barbeque, the Halloween Party, the Christmas Party, and the New Year's Eve Party. Funds are raised in these events from admissions, food and drink sales, and donations. The Recreation Committee also operates soda and ice vending machines at the clubhouse. Funds in excess of expenses from the community events and operation of the vending machines are accumulated and at the discretion of Recreation Committee. Funds are used to purchase equipment for the community or to make improvements to community property.

During 2015, the Recreation Committee incurred a total of \$5,000 included in capital expenditures for improvements at the community entrance and to purchase a sound system for the clubhouse.

Logos – Logos is a volunteer managed retail gift store operating at the back of the clubhouse. Logos sells Lake Nacimiento themed shirts/sweats, hats, stickers and other merchandise. Funds in excess of operating expenses are combined with and are used similar to Recreation Committee funds.

Fishing Derby – The Fishing Derby is an annual event sponsored every May by the Association. Funds in excess of entry fees and donations are used to purchase gift prizes and certificates for participants. Generally, the Fishing Derby does not accumulate funds in excess of expenses with the intent to donate such funds to the Association. To date funds in excess of current spending have been carried over and spent on the Fishing Derby expenses and prizes for the following year.

Fire Wise Committee – The Fire Wise Committee is a volunteer group assembled to raise wild fire safety awareness in the Community through the development and use of educational programs and materials. In 2015, the committee raised \$1,500.

Private Marina

The Private Marina refers to a group of Association members that lease slips in the portion of the marina designated as "Private Marina". The Private Marina consists of 162 leased slips. The docks are located on Association common area, and the docks located in the Private Marina area are owned by the Association.

Under the slip lease agreements, access to the docks is restricted to lessees.

The Private Marina is a financially self-sustaining operation, meaning it operates without any financial assistance from the Association. Slip lease revenues are used for all costs related to dock operations, including ongoing maintenance, repair, and eventual replacement of the private docks and slips, and certain administrative services and insurance costs paid to the Association, including an additional 10% to cover overhead related costs. Therefore, the Private Marina docks themselves have been purchased and built by the members of the Private Marina. The Private Marina is accumulating a reserve fund for future major repairs or replacement of the docks. Accordingly, docks in the Private Marina are not funded by the Association and they are not included in the Association's reserve study.

The separate balance sheets, and statements of revenues and expenses of the Committees, Private Marina and the Operating Fund as of and for the year ended December 31, 2015, are presented in summary on page 12 of this report.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less. Operating Fund cash and cash equivalents at December 31, 2015, includes \$44,971 of cash held by the controlled committees and the Private Marina.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES **(continued):**

The Association maintains bank accounts at various financial institutions. Balances in these accounts may occasionally exceed the FDIC federally insured amount of \$250,000. Funds maintained in brokerage accounts are privately insured by the SIPC (Securities Investors Protection Corporation) up to \$250,000 and amounts in excess of \$250,000 are privately insured by Lexington Insurance Company (an AIG Company). See Note 4.

Investments

The Association holds certificate of deposits maturing from May 2016 through December 2020. The certificate of deposits are classified as a held to maturity investment and accordingly they are recorded at cost. There were no significant accumulated unrealized gains or losses as of December 31, 2015.

The Association also holds money market mutual funds in the amount of \$266,726 which are recorded at market value. There were no significant accumulated unrealized gains or losses as of December 31, 2015.

The Association's investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

Assessments Receivable and Prepaid Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. The Association derives the majority of its revenue from dues assessments that are levied against each lot within the development. Assessments receivable at December 31, 2015 represent amounts due from members whose property maybe subject to lien and foreclosure. The Association's collection policy includes, among other things, assessing a late charge and interest, and filing a lien and assessing a lien fee on payments not received within the allowable time periods.

The Association has the right to suspend certain membership rights and pursue collection through foreclosure action. An allowance for doubtful accounts is created when an account's collectability is uncertain. Accounts are written off when the Association determines that an account is uncollectible, such as after bankruptcy or foreclosure proceedings.

The allowance is an estimate based on an analysis of delinquent assessments receivable, historical collection activities, and existing economic conditions.

At December 31, 2015 assessments receivable consisted of:

Assessments Receivable	\$ 40,173
Allowance for Bad Debts	<u>(21,096)</u>
Net Assessments Receivable	<u>\$ 19,077</u>

Prepaid assessments represent amounts for the 2016 annual assessment paid in advance by members of the Association.

Property and Equipment

Real property common areas acquired by the Association from the developer are not capitalized on the Association financial statements. Although such property is owned by the Association, it is not severable and saleable at the Board's discretion without member approval.

It is the Association's policy that personal property is capitalized at cost and depreciated over the estimated useful lives of the items purchased using straight line or accelerated methods of depreciation.

Property and equipment capitalized on the financial statements consists of:

Furniture and Fixtures	\$ 4,538
Machinery and Equipment	69,319
Docks	228,959
Vehicles	<u>124,180</u>
Total Cost	426,996
Less: Accumulated Depreciation	<u>(332,851)</u>
Net Property and Equipment	<u>\$ 94,145</u>

Common area property not capitalized on the financial statements consists of roads, clubhouse, marina, and swimming pool.

Common areas are restricted to use by Association members, their tenants, and guests. The Association is responsible for the preservation and maintenance of the common areas.

The Private Marina docks are leased to the members of the Private Marina. \$657,900 of Private Marina docks are excluded from the Association's property and equipment due to the nature of the lease agreements with the members of the Private Marina and due to the fact that access to the Private Marina docks is restricted to the lessees.

Committee Expenses

Included in payroll and related costs in the accompanying Statement of Revenues and Expenses is \$7,110 for maintenance and administrative staff costs incurred in support of the community events sponsored by the committees and other groups.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES *(continued):*

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates included in the preparation of these financial statements include estimated bad debts, and estimates of replacement fund components relating to useful life, replacement cost, inflation rates, and tax rates. Actual results could differ from those estimates.

Interest Income

The Association records interest income in the respective fund holding the investments, but records related income tax expenses in the operating fund.

Lines of Business

The Association conducts only one line of business, which is providing management services to its members. This consists primarily of maintenance of the common areas and related administrative functions.

NOTE 2 - REPLACEMENT FUND:

The Association's governing documents require funds to be accumulated for the major repair, maintenance and replacement of its common areas. Funds accumulated are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such expenditures are necessary.

The Association commissioned a reserve study in 2015, without site inspection, to estimate these future funding requirements. The study used a pooled funding method that included an inflation factor of 2% to estimate future expenditures. However, actual expenditures may vary from the estimated amounts and the variations may be material. In addition, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, to borrow the necessary funds, or to delay major repairs and replacements until the funds are available.

The Association annually reviews its reserve funding program as part of the budget process and funds its reserves on a quarterly basis. Cash and investment balances accumulated for the Replacement Fund represent cash restricted for this purpose only.

Replacement Fund expenditures during 2015 were:

<u>Component Category</u>	<u>Cost</u>
Roads	\$ 13,760
Clubhouse	2,926
Pool and Equipment	27,255
Total	<u>\$ 43,941</u>

NOTE 3 - INCOME TAXES:

The Association qualifies as a tax exempt Homeowners Association for all income and expenses related to its exempt function purpose of the acquisition, construction, management, maintenance and care of Association property. The net nonexempt income from earned interest is taxed at 30% by the Federal Government based upon the Association's election to file Form 1120-H.

For California State income tax purposes, the Association is taxed on all net income from nonmember activities. Net member income or losses are not subject to taxation. The tax rate for Association net taxable income is 8.84%.

The Association's policy is to record tax interest expense or penalties in operating expenses. For the year ended December 31, 2015 tax penalties of \$129 were paid and no amount of interest or penalties were accrued.

Oak Shores Community Association's federal and state tax returns are open for examination for the years 2013, 2014, and 2015.

NOTE 4 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The Association maintains its cash deposits in two banks and one securities institution. Deposits in banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. Deposits in the securities institution are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000. Amounts on deposit at the securities institution in excess of \$250,000 are insured by Lexington Insurance Company, an AIG company, (Lexington) up to an additional \$1,900,000. At December 31, 2015, the Association had deposits in two banks totaling \$578,816. Such deposits exceeded the FDIC insurance coverage limits at the banks by a combined \$78,816. At December 31, 2015, the Association had deposits at the securities institution totaling \$648,415. Such deposits exceed the SIPC coverage of \$250,000 but are within the coverage limits provided by Lexington.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2015

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

FASB ASC 820-10, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of fair value of an asset or a liability as of the measurement date. The three levels are defined as follows:

Level 1 – Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities.

Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset backed securities, and swap agreements.

Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining fair value measurement include reporting entity’s own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

Fair value of assets measured on a recurring basis at December 31, 2015 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds	\$266,730	\$266,730	\$ -	\$ -
	<u>\$266,730</u>	<u>\$266,730</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 – PRIOR PERIOD RESTATEMENTS:

During the preparation of the financial statements for 2015, it was determined that the private marina activity was under the control of the Association and the docks were owned by the Association and are leased by members of the Association. In prior years, the accounts of the private marina were not included in the Association’s financial statements, but were included in a footnote to the financial statements, resulting in an understatement of the previously reported fund balance. Accordingly, the inclusion of the private marina accounts in the Association’s financial statements increased the December 31, 2014 operating fund balance by \$61,169.

Also, during 2015, it was determined that the Association should classify its Community docks as personal property, instead of improvements to real property, as in previous years, and the costs should be included in property and equipment. The inclusion of the community docks in the Association’s financial statements at December 31, 2014 increased property equipment by \$228,959, increased accumulated depreciation by \$151,053, and increased the operating fund balance by \$77,906.

The total effect on beginning operating fund balance as a result of the restatements is included in the table below:

	<u>As Originally Stated</u>	<u>Adjustment</u>	<u>As Restated</u>
Operating Fund	\$ 218,287	\$ 139,075	\$ 357,362
Replacement Fund	1,716,733	-	1,716,733
Total	<u>\$1,935,020</u>	<u>\$ 139,075</u>	<u>\$2,074,095</u>

NOTE 7 – SUBSEQUENT EVENTS:

The financial statements were issued on and subsequent events were evaluated through April 28, 2016.

Oak Shores Community Association
Supplemental Information on Replacement Fund Balances
For the Year Ended December 31, 2015
(unaudited)

The Association's governing documents require funds to be accumulated for the maintenance and future repair and replacement of its common areas. Once every three years the Board of Directors and management engage a consultant to perform a formal study to observe and assess the condition of all common area components and determine current replacement costs and useful lives of assets based on published data, contractor or engineering estimates, and prior experience. In addition, the consultant updates estimates for projected inflation and interest rates earned on investments and cash and cash equivalents used to determine the funding status. The most recent formal study without site visit was completed on March 14, 2016 for the year ended December 31, 2015.

The following table presents the significant components of common property and the funding status as estimated at the date of the most recent formal study.

Component	Estimated Remaining Useful Lives	Estimated Current Replacement Cost
Roofing	3-21 years	\$ 45,530
Painting	1 year	28,358
Roads	1-16 years	3,628,080
Security - Fencing	4-19 years	79,576
Clubhouse	2-30 years	166,391
Pool Area	1-25 years	83,675
Community Entrance	4-21 years	43,248
Campground - Golf	3-5 years	51,634
Maintenance Shop	2-8 years	36,577
Vehicles	1-11 years	205,734
Marina	2-17 years	601,290
Totals		<u>\$ 4,970,093</u>
Total Assets at December 31, 2015		<u>\$ 2,128,513</u>
Calculated Total Fully Funded Amount at December 31, 2015		<u>\$ 3,016,619</u>
2016 Annual Funding on a Straight-Line Basis		<u>\$ 364,341</u>
2016 Annual Funding recommended by Consultant		<u>\$ 436,691</u>
2016 Annual Funding per Adopted Budget		<u>\$ 480,800</u>

Replacement costs for the Private Marina docks are exclusively funded by lease fees and are not included in the information above.

Oak Shores Community Association
Schedule of Revenues and Expenses - Budget And Actual
For the Year Ended December, 31, 2015
(Unaudited)

OPERATING FUND	Unaudited		
	Actual	Budget	Variance
<u>REVENUES</u>			
Assessments	\$ 975,362	\$ 975,345	\$ 17
Interest Income	84	230	(146)
Rubbish Fees	188,104	187,760	344
Owner Rental Fees	23,075	29,575	(6,500)
Watercraft Fees	23,450	60,000	(36,550)
Owner Fee Income	7,841	9,000	(1,159)
Committee Revenues	26,002	-	26,002
Lease Fees from Private Marina	54,647	-	54,647
Gain on Sale of Foreclosed Property	19,230	-	19,230
Grant Income	36,539	14,000	22,539
Other Income	40,902	27,344	13,558
Total Revenues	1,395,236	1,303,254	91,982
<u>EXPENSES</u>			
<u>General and Administrative Expenses</u>			
Insurance	69,335	76,100	6,765
Legal Fees	72,367	50,000	(22,367)
Outside Services	37,870	35,680	(2,190)
Auditing and Accounting	7,200	6,700	(500)
Income Taxes	6,746	3,550	(3,196)
Printing and Reproduction	11,794	16,500	4,706
Other General and Administrative	40,935	63,373	22,438
<u>Payroll and Related Costs</u>			
Salaries	461,868	504,311	42,443
Payroll Taxes	42,157	51,000	8,843
Insurance and Other Costs	80,381	86,500	6,119
<u>Utilities</u>			
Rubbish Service	190,753	190,760	7
Water and Fire Hydrants	88,821	94,590	5,769
Electricity and Propane	23,896	28,000	4,104
Telephone and Other	14,228	14,350	122
Depreciation	22,068	-	(22,068)
Committee Expenses	25,438	-	(25,438)
Private Marina Expense	105,022	-	(105,022)
Transportation Costs	26,689	35,350	8,661
Maintenance and Repairs	61,880	73,345	11,465
Gate Enhancement Project	15,324	20,000	4,676
Capital Expenditures	132	-	(132)
Total Expenses	1,404,904	1,350,109	(54,795)
Excess (Deficiency) of Revenues Over Expenses	\$ (9,668)	\$ (46,855)	\$ 37,187

REPLACEMENT FUND

<u>REVENUES</u>			
Assessments	\$ 447,060	\$ 447,040	\$ 20
Interest Income	2,361	9,358	(6,997)
Other Income	4,800	-	4,800
Total Revenues	454,221	456,398	(2,177)
<u>EXPENSES</u>			
Major Repairs and Replacements	43,941	191,933	147,992
Total Expenses	43,941	191,933	147,992
Excess of Revenues Over Expenses	\$ 410,280	\$ 264,465	\$ 145,815

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association
Summarized Schedule of Operating Fund Activity
As of and For the Year Ended December 31, 2015
(Unaudited)

	<u>Association</u>	<u>Private Marina</u>	<u>Committee Funds</u>	<u>Total Operating Fund</u>
<u>Balance Sheets</u>				
Cash and Cash Equivalents	\$ 634,344	\$ 18,279	\$ 26,692	\$ 679,315
Other Assets	169,848	-	6,183	176,031
Total Assets	<u>\$ 804,192</u>	<u>\$ 18,279</u>	<u>\$ 32,875</u>	<u>\$ 855,346</u>
Accounts Payable	\$ 5,086	\$ 7,475	-	\$ 12,561
Other Liabilities	484,050	-	-	484,050
Total Liabilities	<u>489,136</u>	<u>7,475</u>	<u>-</u>	<u>496,611</u>
Fund Balances	315,056	10,804	32,875	358,735
Total Liabilities and Fund Balance	<u>\$ 804,192</u>	<u>\$ 18,279</u>	<u>\$ 32,875</u>	<u>\$ 855,346</u>
<u>Revenues and Expenses:</u>				
Total Revenues	\$ 1,314,577	\$ 54,657	\$ 26,002	\$ 1,395,236
Total Expenses	<u>1,272,862</u>	<u>105,022</u>	<u>27,020</u>	<u>1,404,904</u>
Excess (Deficiency) of Revenues Over Expenses	<u>41,715</u>	<u>(50,365)</u>	<u>(1,018)</u>	<u>(9,668)</u>
Fund Balances, Beginning of Year	184,394	-	33,893	218,287
Prior Period Adjustment	77,906	61,169 *	-	139,075
Fund Balances, Beginning of Year Restated	<u>262,300</u>	<u>61,169</u>	<u>33,893</u>	<u>357,362</u>
Contributed Capital	11,041	-	-	11,041
Fund Balances, End of Year	<u>\$ 315,056</u>	<u>\$ 10,804</u>	<u>\$ 32,875</u>	<u>\$ 358,735</u>

* Prior period adjustment for the Private Marina includes beginning cash balance of \$61,169.

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April 28, 2016

Board of Directors
Oak Shores Community Association
Bradley, CA

We have audited the financial statements of Oak Shores Community Association as of and for the year ended December 31, 2015, and have issued our report thereon dated April 28, 2016. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated October 16, 2015. Professional standards require that we provide you with the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Oak Shores Community Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2015. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimate of collectibility of assessments receivable is based on history and knowledge of current status of receivables, plus authority to lien property. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management are material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management Letter of Representations dated April 28, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information Accompanying the Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information

With respect to the supplementary information on replacement fund balances required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This information is intended solely for the use of the Board of Directors and management of Oak Shores Community Association and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Hinricher, Douglas & Porter

Hinricher, Douglas & Porter, LLP

Hinricher, Douglas & Porter, LLP

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April 28, 2016

Board of Directors
Oak Shores Community Association
Bradley, CA

In planning and performing our audit of the financial statements of Oak Shores Community Association as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Oak Shores Community Association 's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the items listed on page 2 to be significant deficiencies in internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Association, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Hinricher, Douglas & Porter

Hinricher, Douglas & Porter, LLP

Current Findings and Recommendations

Our engagement disclosed the following areas in which we believe more effective internal control or increased efficiency may be achieved.

Logos Committee

During our audit procedures it was noted that cash was not properly reconciled to the financial statements for the Logos Committee. It was also noted that an annual inventory of merchandise had not been performed on or near the Association's calendar year end. Although, the transactions of the Logos Committee are immaterial in relation to the Association's financial statements taken as a whole, the above indicates a lack of internal control over the financial reporting process.

Since the Recreation, Logos, Firewise, Fishing derby, and Private marina committees are combined with the Association's financial statements, we recommend the internal controls, over the financial reporting process for the committees, be incorporated with that of the Association. Therefore, we recommend the Association setup a system of controls to adequately track financial transactions for the committees in order to properly report the committees' activities and financial position. We recommend the Association setup a new company or companies using its current general ledger software or in another software package, such as QuickBooks, in order to produce financial statements. We also recommend the Association implement procedures where the committees provide source documents on a periodic basis in order to adequately capture the activities of the committees throughout the year. Finally, we recommend the Association implement procedures to reconcile cash or to oversee the reconciliation of cash for each committee and to oversee the inventory of merchandise and fixed assets for the applicable committees.